



2010 Mid-Year Digital Media M&A Review

PEACHTREE MEDIA ADVISORS

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Peachtree Media Advisors, Inc. is a New York-based investment bank providing M&A advisory services to growth and middle market digital media companies both in the U.S. and abroad. John Doyle, Managing Director & Founder, has been a media investment banker for more than 13 years; closed and structured more than 20 deals; and has a strong knowledgebase of financial and strategic buyers in these sectors. If you are interested in learning more about valuation, positioning, preparation or the merger and acquisition process, please go to www.peachtreemediaadvisors.com or contact John Doyle at 212-570-1009.

Digital Media M&A Activity in the First Half

Amidst the ongoing struggles of the overall economy, a cautiously optimistic digital media M&A environment saw 564 transactions announced in the first half of 2010 for a reported \$9.0 billion, surpassing 1H09 figures by 68% and 117%, respectively. Rapid innovation in mobile and cloud computing, social gaming growth, and the rising popularity of group commerce and private sales each contributed to the uptick in M&A activity. While

uncertainty remained in the marketplace, deal flow managed to increase in virtually every category of digital media, with only LEAD GENERATION & CUSTOMER ACQUISITION recording fewer transactions than for the same period in 2009 (see Figure 1).

Meanwhile, valuations dipped down from 2009 year-end levels following a sell-off in the equity markets in May and June. While the average revenue multiple for CONSUM-

ER, ADVERTISING & SEARCH companies fell slightly from 3.2x to 2.9x, E-COMMERCE companies experienced a more precipitous decline from 3.5x to 2.0x. EBITDA multiples for E-COMMERCE companies also dropped sharply, down 36% from 29.9x to 19.1x. B2B, on the strength of several prominent acquisitions, including Silver Lake and Warbug Pincus' joint acquisition of Interactive Data Corporation for \$3.4 billion, was the lone sector that managed to achieve growth in its valuation multiples.

Figure 1: 2010 and 2009 First Half Transaction Volume Comparison

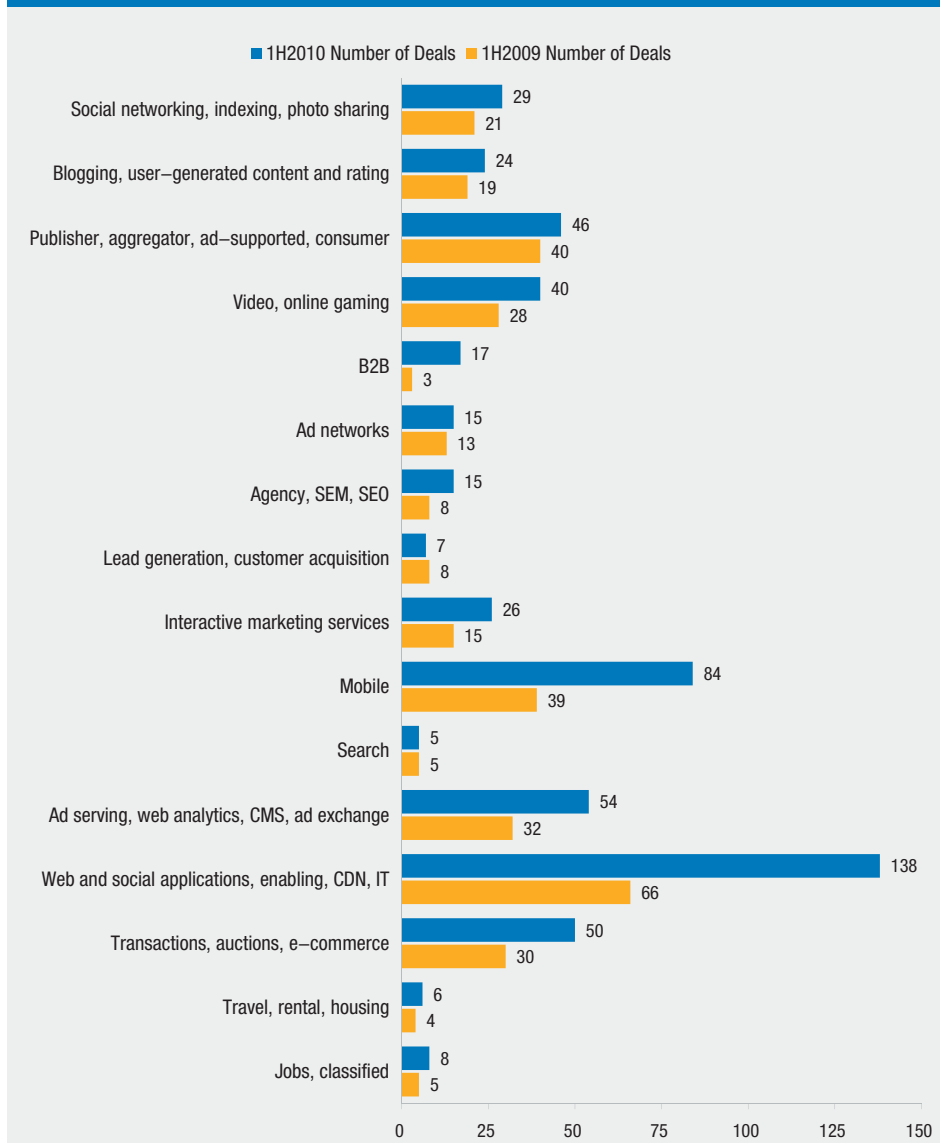


Figure 2: 2010 Online Sector Categories

- Consumer**
 - Social networking, indexing, photo sharing
 - Blogging, user-generated content, rating
 - Consumer publisher, aggregator, ad-supported
 - Video, online gaming
- Online Business Services**
 - B2B
 - Ad networks
 - Agency, SEM, SEO
 - Lead generation, customer acquisition
 - Interactive marketing services, email
- Mobile**
 - Mobile content
 - Mobile applications
 - Mobile interactive marketing services
- Enabling, Analytics, Ad Serving**
 - Search
 - Ad serving, exchanges, and technology
 - Web analytics, CMS
 - Web applications, enabling, IT
 - Content delivery networks
- Commerce**
 - Transactions, auctions
 - Travel, rental, housing
 - Jobs, classifieds
 - E-commerce, comparison shopping

Digital Media M&A Activity in the First Half

M&A

With 224 transactions totaling a reported \$6.8 billion, mergers and acquisitions in the first half of 2010 not only exceeded the 103 deals from the first half of 2009 but also the 221 recorded all of last year. ENABLING, ANALYTICS & AD SERVING, with 63 transactions, and CONSUMER, with 62, led the way, while the MOBILE sector continued to garner attention with 36 deals, triple its output from 1H09.

After sitting out most of 2009, private equity companies returned from the sidelines to make the two largest acquisitions of the first half – the aforementioned \$3.4 billion Interactive Data Corporation acquisition along with CCMP Capital Advisors' \$635 million purchase of customer acquisition service Infogroup.

Traditional media companies, who also endured a quiet 2009 while watching the continued decline of print advertising revenue, were headlined by Hearst's purchase of digital agency iCrossing for \$325 million in an attempt to diversify revenue. Mostly, however, they continued to make tuck-in acquisitions and small bets on emerging digital trends, such as Forbes' foray into content aggregation with its purchase of True/Slant and Time, Inc. buying social shopping engine StyleFeeder.

Their digital counterparts, meanwhile, remained active; Google and social gaming firm Playdom followed a string of

Figure 3: Top Categories by Capital Raised

Category	Raises	Value (\$M)	Driver(s)
Web and social applications, enabling, CDN, IT	95	477	Cloud computing
Transactions, auctions, e-commerce	34	355	Group buying, deal of the day, private sale
Ad serving, web analytics, CMS, ad exchange	37	296	Ad technologies
Video, online gaming	23	290	Social games
Mobile	48	260	Mobile applications

purchases in late 2009 with a combined thirteen acquisitions in the first half, while Facebook and Twitter made three small, strategic acquisitions each.

CAPITAL RAISES

As digital media begins to mature as an industry, the metrics by which digital media companies are being measured are also evolving. Large traffic, visitor, and user numbers have traditionally indicated success, but many of these companies have nonetheless failed to subsequently convert site popularity into sustainable revenue.

This year's trend in venture funding has been to invest heavily in proven business models while also experimenting with new business models. With display advertising experiencing a price drop that could continue falling, companies are diversifying beyond the ad-supported model, and advertisers are developing new or premium ad models that encourage engagement.

In the first half of 2010, digital media companies raised \$2.2 billion of funding across

340 transactions, 55% more than the \$1.4 billion raised over the same period last year. The leading categories in terms of capital raised were each driven by investments in new business models demonstrating profitability (see Figure 3).

Rapid development of the cloud, with enterprises beginning to adopt cloud-based services, carried WEB AND SOCIAL APPLICATIONS, ENABLING, CDN, & IT to the top spot once again, setting the pace in both transactions and deal value, with 95 raises for a reported \$477 million. It was followed by TRANSACTIONS, AUCTIONS & E-COMMERCE, which raised \$355 million on the strength of group buying and private sale companies. VIDEO & ONLINE GAMING, After only raising \$79 million in 1H09, ended the first half with \$290 million of funding—more than half of which came from Zynga's mammoth \$150 million round from SoftBank. ■

Trends and Developments in Digital Media M&A

THE FUTURE IS MOBILE

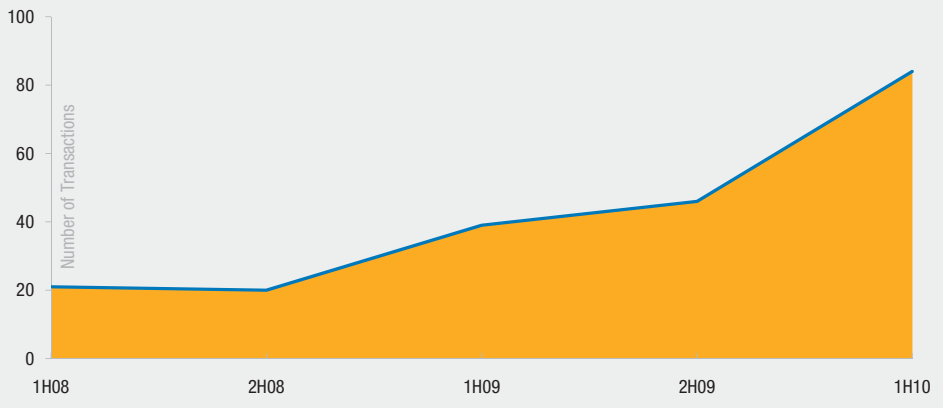
Smartphone proliferation is changing the way people use their mobile devices and spurring rapid adoption of the mobile web. Only 45% of the time Apple iPhone users spend on their phones, for example, are devoted to making calls, and according to the Pew Internet and American Life Project, 38% of US cell phone users—or 89 million people—have accessed the internet from their phones in the past year, up from 25% a year ago.

This shift in mobile usage has translated into an explosion in mobile technology development built around the mobile web. In the span of just a couple of years, mobile applications have grown into a multibillion dollar market while only barely tapping into its enormous potential.

MOBILE has been one sector, even in a tepid dealmaking environment, into which investors and strategic buyers alike have been unafraid to cast their marbles. As seen in [Figure 4](#), the recessionary conditions over the past couple of years have appeared to bear little effect on growth in the mobile M&A market. The 84 transactions for \$543 million announced in the first half were only one short of the overall 2009 transaction count, and represented respective increases of 115% and 180% over 1H09 figures.

Apple, who has risen to the forefront of this space with the iPhone and its accompanying App Store, bought mobile ad network Quattro Wireless in January for \$275 million to maintain control on its existing mobile offerings. The stunningly high 13x revenue Apple paid for Quattro, in tandem with Google's prior month \$750 million purchase of competitor AdMob at an even more lofty valuation, caught the attention of other mobile advertisers, triggering a wave of funding which included \$10 million for ad network Apptera, \$8 million for

Figure 4: Mobile M&A Transaction Volume Growth, 2008–2010



ad network AdMarvel, and \$9 million for ad platform Transpera.

Other areas of investor interest included mobile payments, geo-location apps, and mobile games. Mobile payment firms Boku and Zong raised \$25 and \$15 million, respectively, and geo-location service Foursquare, after rumors of a Yahoo acquisition, raised \$20 million in late June. Mobile games, which remain the most popular type of mobile application, were led by Ngmoco's \$25 million raise, with Booyah, Moblyng, Social Gaming Network, and Scvngr each receiving funding as well.

SOCIAL GAMES GAIN MOMENTUM

One of the most prominent byproducts of social networking has been the emergence of social games. The launch of the Facebook Platform in May 2007 sparked the ascent of social gaming, as developers seized the opportunity to produce games for the Facebook community. Since then, the phenomenon has expanded beyond Facebook and onto other platforms, including standalone platforms, and grown into a billion dollar industry.

The speed with which the social gaming market has heated up has attracted a flock of investors, and M&A activity has also begun to materialize. After Zynga raised

a \$180 million round and Electronic Arts (EA) acquired Playfish for up to \$400 million including earnouts, both in the second half of 2009, social gaming M&A has maintained its momentum this year while valuation multiples continue to balloon.

In January, Shanda Games bought Mochi Media, who specializes in distributing and monetizing games, for \$80 million at more than 7x revenue. Playdom received \$44 million across three rounds of funding, and went on a buying spree, acquiring Offbeat Creations, Merscom, Acclaim Games, and Hive 7. Fresh off the heels of its \$180 million raise in December, Zynga came back with another big round—\$150 million—and picked up Challenge Games and Serious Business along the way.

Following EA's Playfish acquisition, other traditional game developers, along with media and technology companies, have been in hot pursuit of social gaming companies. News Corp. made a small splash by purchasing Twitter and Facebook games developer Irata Labs, while rumors of bigger deals swirled. CrowdStar, after speculation about an imminent deal, walked away from an acquisition by Microsoft that would have been for over \$200 million.

Looking ahead to the second of 2010, social gaming figures to be one of the hottest

Trends and Developments in Digital Media M&A

areas of expected M&A activity as strategic buyers jostle for position in this area.

ENTERPRISES JOIN THE CLOUD

Although cloud computing rose to prominence as a buzzword in 2009, consumers have actually been utilizing the cloud for several years now. However, companies who were formerly reluctant to participate, citing reliability and security concerns, have begun to move toward the cloud and embrace it as a solution with real benefits.

The first half of 2010 saw a number of enterprise cloud computing service providers at each level—IaaS, PaaS, and SaaS—receive venture funding as they push innovation in their respective spaces. In January, Lithium Technologies raised \$18 million for enterprise-level social networking tools; SaaS unified communications provider PanTerra Networks followed in March with a \$4 million raise. AppDynamics, who monitors applications running in the cloud, also received funding, closed an \$11 million round. At the platform layer of the cloud, Heroku, whose Ruby platform allows developers to host their applications, raised \$10 million in May. Drilling down further to infrastructure, IaaS company Cloud.com received \$11 million in funding in May from a group of investors.

NEW FACES IN E-COMMERCE

Time-sensitive deals, driven in part by social media, have become the new darlings of e-commerce. Continuing a trend that began last year, group buying, deal of the day, and private sale sites are each carving niches for themselves in the e-commerce landscape. With companies like Groupon, Gilt Groupe, and Woot proving that their

business models not only work but do so in lucrative fashion, investors have allocated big dollars into this new wave of e-commerce companies.

Not surprisingly, the three aforementioned companies were seen at the core of 1H10 M&A activity in the TRANSACTIONS, AUCTIONS & E-COMMERCE category. After raising \$30 million in December, Groupon came back with a whopping \$135 million round in April; during these five months the company's valuation also rocketed from \$250 million to \$1.2 billion. Gilt Groupe, who is reportedly on pace to hit \$500 million in revenue this year after posting \$170 million last year, raised another \$35 million and was joined by fellow private sale retailer HauteLook, who brought in a \$31 million round of their own. Finally, Woot—one of the originators of the deal of the day concept—was acquired by Amazon in a \$110 million all-cash deal.

Other acquisitions in the space hinted that further consolidation may already be on the way in these young niche markets. Online publisher Sugar Inc. bought FreshGuide to move into group commerce, while Tippr purchased FanForce to build upon their existing group buying service. Additionally, Jack Threads, who offers private sales events for men, was acquired by Thrillist.

OTHER NOTABLE TRANSACTIONS

Salesforce buys Jigsaw

In April, Salesforce.com acquired Jigsaw, a user-generated B2B business contact community, for \$142 million in cash. The deal is the latest step in Salesforce's effort to bolster its cloud computing platform,

Force.com, by leveraging Jigsaw's cloud-based model for acquiring, completing, and cleansing business contact data on a subscription basis over the Internet.

Hearst purchases iCrossing

In June, Hearst Corp, a large diversified media company, acquired iCrossing, an online advertising agency, for \$325 million. Similar to other magazine publishers that have not been able to figure digital out, Hearst is expanding beyond digital and into the services business. Hearst's acquisition of the largest remaining independent search engine marketing firm allows the company to sell significantly more product to agencies and brands than its previous digital media offerings.

Warner Bros. acquires Turbine

In April, Warner Brothers Home Entertainment Group acquired Turbine, Inc. for \$160 million. The acquisition of Turbine, a game developer headquartered in Massachusetts, enables Warner Bros. to broaden its games portfolio and development capabilities in addition to potentially pairing online game launches with DVD movie releases.

Yahoo acquires Associated Content

In May, Yahoo acquired Associated Content for a little over \$100 million. By incorporating the online publisher and distributor's low-priced CPC-targeted model into its network, Yahoo will be able to produce its own content as opposed to licensing it from third-parties, which should significantly increase its AdSense and search marketing margins. The acquisition is also complementary to the MyBlogLog acquisition that Yahoo made a few years ago, in that the revenue share platform can be distributed to bloggers. ■

Valuations

Figure 5: Public Market Valuations (\$M)

Sector	Company	Market Cap	Total Debt	Cash	Enterprise Value	LTM Revenue	LTM EBITDA	REV Multiple	EBITDA Multiple
Consumer, Advertising, Search	Google Inc.	139,310	0	26,514	112,796	24,917	10,370	4.5x	10.9x
	IAC/InterActiveCorp	2,400	96	1,527	969	1,430	114	0.7x	8.5x
	Internet Brands	472	0	63	409	103	39	4.0x	10.6x
	Netflix	5,570	238	266	5,541	1,770	251	3.1x	22.0x
	SN Interactive, Inc.	6,760	884	321	7,323	1,650	638	4.4x	11.5x
	The Knot, Inc.	251	0	132	119	110	15	1.1x	7.9x
	Yahoo! Inc.	19,460	136	3,242	16,354	6,480	1,320	2.5x	12.4x
	AOL Inc.*	2,160	70	262	1,968	3,060	974	0.6x	2.0x
	WebMD Health Corp*	2,560	400	808	2,152	456	75	4.7x	28.9x
							MEAN	2.9x	12.0x
E-Commerce	Amazon.com Inc.	48,740	131	5,063	43,808	26,750	1,560	1.6x	28.1x
	eBay Inc.	25,160	0	4,528	20,632	8,900	2,710	2.3x	7.6x
	Expedia	5,230	895	1,044	5,081	3,040	762	1.7x	6.7x
	Monster Worldwide	1,390	50	299	1,141	866	42	1.3x	27.3x
	Move, Inc.	345	64	218	191	206	5	0.9x	40.8x
	Ancestry.com	729	97	128	699	236	69	3.0x	10.1x
	Priceline	8,590	97	1,236	7,452	2,460	555	3.0x	13.4x
	OpenTable*	928	0	76	852	74	16	11.5x	51.8x
							MEAN	2.0x	19.1x
Interactive Marketing Services	Digital River Inc.	954	9	394	569	400	77	1.4x	7.4x
	GSI Commerce	1,690	207	132	1,765	1,080	82	1.6x	21.6x
	LivePerson Inc.	331	0	51	280	93	19	3.0x	14.7x
	Marchex Inc.	138	0	34	104	91	4	1.1x	26.1x
	QuinStreet, Inc.	488	106	175	418	314	54	1.3x	7.7x
	ValueClick Inc.	834	0	160	674	415	116	1.6x	5.8x
	Constant Contact*	594	0	116	478	140	7	3.4x	66.7x
	Inuvo, Inc.*	14	6	2	18	49	(0)	0.4x	n/m
							MEAN	1.7x	13.9x
Online B2B Content	comScore Inc.	539	5	82	462	133	19	3.5x	24.9x
	Forrester Research	690	0	273	417	236	46	1.8x	9.1x
	Gartner Inc.	2,230	367	106	2,491	1,160	157	2.1x	15.9x
	WebMediaBrands Inc.	31	6	14	24	6	(7)	3.7x	n/m
	TheStreet.com Inc.	87	0	43	44	60	3	0.7x	12.8x
	TechTarget*	228	0	74	154	89	2	1.7x	77.9x
							MEAN	2.4x	15.6x
Diversified Media	CBS	8,790	6,971	873	14,888	13,390	1,930	1.1x	7.7x
	Comcast Corp	50,220	30,919	3,524	77,615	36,090	13,920	2.2x	5.6x
	Entravision Communications	154	360	26	488	191	57	2.6x	8.5x
	Gannett Co., Inc.	3,130	2,801	104	5,827	5,560	1,140	1.0x	5.1x
	HSN, Inc.	1,470	334	261	1,543	2,800	204	0.6x	7.6x
	McGraw-Hill	8,740	1,198	1,235	8,703	5,990	1,500	1.5x	5.8x
	Media General	201	693	21	873	657	129	1.3x	6.7x
	New York Times	1,250	771	100	1,921	2,420	387	0.8x	5.0x
	NewsCorp	31,840	13,506	8,183	37,163	32,340	5,650	1.1x	6.6x
	Time Warner	32,160	16,647	5,167	43,640	26,110	6,440	1.7x	6.8x
	Washington Post	3,740	399	1,047	3,093	4,690	639	0.7x	4.8x
	Discovery Communications*	15,210	3,491	691	18,010	3,580	1,320	5.0x	13.6x
							MEAN	1.3x	6.4x

* Removed from mean

Sources: CapitalIQ; Company SEC Filings. Stock Price 7/6/10.

OVERALL MEAN 2.0x 12.4x
OVERALL MEDIAN 1.6x 8.5x